



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 7/2/2003

GAIN Report Number: JA3039

Japan

Tobacco and Products

Annual

2003

Approved by:

Kevin Latner
U.S. Embassy

Prepared by:

Masaoki Nagahama

Report Highlights:

Japanese tobacco production in 2002 was 58,174 ton, down 4% from the previous year. Crop area employed last year also declined, with aging of farmers and absence of tobacco farm successors cited as a primary reason. Japan's cigarette imports in 2002 grew almost 2%, with the U.S. share accounting for 95% of the volume. Both the smoking population and cigarette consumption are expected to shrink, however, in part as a result of new anti-smoking legislation, effective May 2003.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Tokyo [JA1]
[JA]

Table of Contents

Executive Summary	3
Tobacco, Unmfg., Total.....	3
Production	3
Crop Area	3
Yield	4
Policy	5
Prices	5
Consumption.....	6
Trade.....	6
Japan's Tobacco Leaf Imports from the World.....	6
Japan's Tobacco Leaf Exports to the World.....	7
Tobacco, Mfg. Cigarettes.....	7
Production	7
Consumption.....	7
Smoker Survey	9
Consumer Taste Preferences.....	10
Trade.....	10
Japan's Cigarette Imports from the World.....	11
Japan's Cigarette Exports to the World.....	11
Policy Issues.....	11
Anti-Smoking	12
Tax Measures.....	12
Japan Tobacco, Inc.	12
Marketing - Retail Distribution	12
Retailers	12
Vending Machines	12

Executive Summary

Japanese tobacco leaf production in 2002 totaled 58,174 (MT) in farm sales weight, down 3.9% from 60,565 metric tons (MT) in the previous year. Due to an unusually long, hot summer, extended periods of overcast, the effect of typhoons, and drought in some areas, production quality and quantity declined. The yield of flue-cured leaf increased, while yields of the burley and light air-cured leaf tobacco declined.

The crop area in 2002 was 23,038 hectares, short of the industry's target by 682 hectares and down 373 hectares from the previous year. Aging farmers and the resulting shortage of farm labor are the principal reasons.

In 2002, Japanese cigarette imports from the world were up almost 2% from the previous year to 83,422 million pieces, with the U.S. share accounting for 95% of the total volume. The U.S. share of cigarette imports in 2002 was up almost 1% to a record 26.7%. Japan Tobacco (JT), Japan's only domestic manufacturer, responded to their shrinking market share by announcing a major restructuring plan to permanently close 8 of its 25 manufacturing facilities within the year.

JT's smoker survey reports that cigarette consumption in 2002 declined to a record low of 30.9%, down from 32.7% in the previous year. Because the elderly smoke less, the aging population is cited as the principal reason for this continued decline.

Tobacco, Unmfg., Total

Production

Japan Tobacco, Inc. (JT) is Japan's only legal buyer of tobacco leaf. This year, JT's purchasing began in the south in the Okinawa Prefecture on July 31, 2002 and ended in the north in the Fukushima Prefecture on February 7, 2003. Japanese domestic leaf production was 58,174 MT, down 3.9% from 60,565 MT in the previous year.

In 2002, flue-cured leaf production declined 255 MT from 41,289 MT the previous year to 41,034 MT, and burley leaf production dropped 2,018 MT from 18,413 MT to 16,395 MT, farm sales weight. Light air-dried production was 745 MT, down from 863 MT in the previous year. Quality and production of the flue-cured tobacco suffered from a long, hot summer, a spell of cloudy days, the impact of typhoons and some localized drought. Burley leaf production suffered from excessive rain and low temperatures during harvest in August.

Crop Area

Tobacco production in 2002 came from 23,038 hectares, down 373 hectares from the previous year. The continuing downtrend in the production area is the result of fewer farmers, down 883 to 20,785 from the previous year, and the resulting farm labor shortage.

On November 20, 2002, the Japan Tobacco Deliberations Council, jointly with JT, agreed to a production target for the 2003 season, as outlined below. The Tobacco Deliberations Council is a tobacco policy-setting group consisting of 11 commissioned members representing tobacco growers, academic experts and government officials. Major factors considered were farm labor shortage and the viability of tobacco as a cash crop.

CROP AREA BY TYPE OF TOBACCO LEAF BY YEAR (Hectares)					
Leaf Type	2001		2002		2003 1/
	Target	Actual	Target	Actual	Target
Flue-Cured 2/	16,520	16,112	16,250	15,930	16,090
Burley 3/	7,310	6,981	7,100	6,807	6,960
Light Air-Cured 4/	380	318	370	301	360
TOTAL	24,210	23,411	23,720	23,038	23,410
Variance (Target vs. Actual)	-	(799)	-	(682)	-

(Source: Japan Tobacco Inc.)

1/ Target crop area for the year, as authorized by Tobacco Deliberations Council. 2/ Consisting of 4 types of leaf. 3/ Consisting of 2 types of leaf. 4/ Consisting of 3 types of leaf.

As of March, according to Japanese Tobacco Farmers Association, contracted farmland for the 2003 season was 775.2 hectares. As shown below, this is short of the target.

TOBACCO CROP AREA FOR 2002 TARGET vs. CONTRACT (Ha.)			
Type of Leaf	Target Vs. Contract (Mar. 2003)		Variance
	Target	Contracted	
Flue-Cured	16,090	15,670.5	(419.5)
Burley	6,960	6,680.4	(279.6)
Light Air-Cured	360	283.9	(76.1)
Total	23,410	22,634.8	(775.2)

Yield

The yield per hectare declined less than production because of the higher yield of flue-cured leaf. Yields of burley and light-air cured leaf dropped, as shown in the table below.

PRODUCTION AND YIELD PER HECTARE FOR JAPANESE LEAF TOBACCO (Units: Production-MT; Yield-Kilogram/hectare)				
Year	2001		2002	
Leaf Type	Farm Production	Yield	Farm Production	Yield
Flue-Cured	41,289 MT	2,560 Kg.	41,034	2,580 Kg.
Burley	18,413 MT	2,640 Kg.	16,395	2,410 Kg.
Light Air-Cured	863 MT	2,710 Kg.	745	2,470 Kg.
TOTAL	60,565 MT	2,590 Kg.	58,174	2,530 Kg.
% Growth (Yr./Yr.)	- 0.4%	+ 2.4%	-3.9%	-2.3%

Policy

JT is Japan's only cigarette manufacturer, is exempted from Japan's anti-trust legislation, and is obligated to purchase all domestically grown tobacco leaf. While JT and the Japanese Tobacco Growers' Association have agreed to maintain a production area of 25,000 hectares each year, farmers have not been able to meet their target since 1999.

Legislation, passed by Japanese national legislature in April 2003, allows the Japanese government to reduce ownership of JT shares from 2/3 to 1/3 of the JT stock, allowing the government to liquidate up to half of 1,334,000 shares of JT stock. The government has not liquidated its ownership, however, because of poor economic and stock market conditions.

Prices

In November 2002, because of declines in tobacco farmers' production costs, the Japan Tobacco Deliberations Council, for the first in 15 years, reduced the farm gate prices of leaf tobacco. The weighted average price for leaf tobacco in 2003 will be 1,880.98 yen/kg, down 1.87% from the previous year. However, the cost of domestically grown tobacco leaf is still high, compared with that of U.S.-grown leaf. The table below shows the historical farm gate price for leaf tobacco paid by JT.

AVERAGE PURCHASE PRICES BY TYPE OF LEAF (Yen per Kilogram; Farm Sales Weight Basis)					
Crop Year	Flue-Cured	Burley	Light Air -Cured	Average	Yr./Yr. Change
2002	1,901	1,823	1,858	1,878	- 0.9%
2001	1949	1,777	1,827	1,895	- 1.6%

2000	1,968	1,826	1,929	1,926	+2.5%
1999	1,915	1,794	1,894	1,879	+1.4%
1998	1,916	1,721	1,870	1,853	-2.5%
1997	1,974	1,745	1,950	1,901	+1.5%
1996	1,949	1,718	2,008	1,872	-3.6%
1995	2,011	1,789	2,055	1,941	-0.7%
1994	2,048	1,761	2,061	1,955	+2.8%
1993	1,979	1,749	2,051	1,901	-3.5%
1992	2,032	1,809	2,161	1,969	+5.2%
1991	1,931	1,721	2,131	1,872	+0.9%
1990	1,937	1,656	2,060	1,854	+0.8%

(Source: JT / Japan Tobacco Growers' Association)

Consumption

JT's leaf tobacco consumption for cigarette production and inventory levels is proprietary. However, Post estimates that the year-end inventory level for unmanufactured tobacco leaf is approximately 200,000 MT. Of total leaf consumption, an estimated 35-42% is domestically grown.

Trade

Japanese leaf tobacco imports in 2002 were 89,457 MT, down about 1% from 92,425 MT in the previous year. The U.S. share was 42.2%, up from 41.5%. While imports from Brazil, Malawi, Zimbabwe, Italy and Greece declined, imports from China, Turkey, Zambia, Argentina and Thailand increased by an aggregated 16.2% in 2002.

Japanese leaf imports totaled \$514.423 million in 2002, Japan's customs basis, down only slightly from \$516.895 million in the previous year. The U.S. share was \$306.256 million or 59.5% of the total value, up from \$299.782 million or 57.9% in the previous year.

Japan exported 707 MT of leaf tobacco in 2002, down from 784 MT in the previous year, with exports going principally to France and Russia.

Japan's Tobacco Leaf Imports from the World

Time Period	Jan.-Dec	Units:	MT
Imports for:	2001		2002
U.S.	38372	U.S.	37761
Others		Others	
Brazil	17734	Brazil	16582

Malawi	8130	Italy	5816
Zimbabwe	6088	Malawi	5662
Italy	4723	Zimbabwe	4567
Greece	4104	Greece	3951
China	3144	China	3212
Turkey	2820	Turkey	3112
Zambia	1120	Macedonia	1556
Argentina	951	Zambia	1545
Thailand	777	Spain	816
Total for Others	49591		46819
Others not Listed	4462		4877
Grand Total	92425		89457

Japan's Tobacco Leaf Exports to the World

Time Period	Jan.-Dec	Units:	MT
Exports for:	2001		2002
U.S.	0	U.S.	0
Others		Others	
France	662	France	467
Belgium	116	Russia	187
Vietnam	3	Italy	21
China	3	Vietnam	17
		China	15
Total for Others	784		707
Others not Listed	0		0
Grand Total	784		707

Tobacco, Mfg. Cigarettes

Production

Information on JT's cigarette production is not public. However, Post estimates that JT produced approximately 229 billion cigarettes in 2002, with the filter-cigarette production accounting for about 99% of total volume.

Post forecasts a continuing decline in Japanese domestic cigarette production, due declines in consumption and competition from imported cigarettes.

Consumption

The Tobacco Institute of Japan, the cigarette producer association in Japan, reported that in Japanese fiscal year (JFY) 2001 (April-March), JT sold 229 billion cigarettes from domestic production, down 3.5% from the previous year. Sales of imported cigarettes, on the other hand, totaled 83.6 billion pieces, up 1.8% from the previous year. As a result, the market share of imports increased 1 percentage point to a record-high 26.7% in JFY2002. The record retail value of imported cigarettes was approximately \$9.3 billion (1,099.3 billion yen), up 1.7% from the previous year.

CIGARETTE CONSUMPTION BY YEAR, VOLUME & VALUE (Volume-Billion pieces: Value-Billion Yen/Japanese Fiscal Year: Apr. - Mar.)				
Year (JFY): Domestic vs. Imports	Volume		Value	
	Sold	% Change	Sold	% Change
2002	312.6	-2.1%	4,018.7	-2.1%
Domestic	229.0	-3.5%	2,919.4	-3.4%
Import Share (26.7%)	83.6	+1.8%	1,099.3	+1.7%
2001	319.3	-1.6%	4,103.7	-1.5%
Domestic:	237.2	-2.4%	3,022.3	-2.3%
Import Share: (25.7%)	82.1	+0.8%	1,081.4	+0.7%
2000	324.5	-2.3%	4,168.1	-2.2%
Domestic	243.1	-2.8%	3,094.3	-2.6%
Imports Share: (25.1%)	81.4	-0.9%	1,073.8	-0.8%
1999	332.2	-1.3%	4,260.0	+4.2%
Domestic:	250.1	-2.9%	3,177.4	+2.9%
Import Share: (24.7%)	82.1	+3.9%	1,082.6	+8.0%
1998	336.6	+2.6%	4,089.9	+4.9%
Domestic:	257.6	+1.2%	3,087.0	+3.8%
Import Share: (23.5%)	79.0	+7.5%	1,002.8	+8.7%
1997	328.1	-5.8%	3,897.1	-2.5%
Domestic:	254.6	-5.9%	2,974.3	-2.8%
Import Share: (22.4%)	73.5	-5.4%	922.8	-1.9%
1996	348.3	+4.1%	3,999.2	+4.3%
Domestic:	270.6	+2.6%	3,058.6	+2.9%
Import Share: (22.3%)	77.7	+9.4%	940.7	+9.2%
1995	334.7	+0.1%	3,832.7	+0.4%
Domestic:	263.7	-1.9%	2,971.6	-1.5%
Import Share: (21.2%)	71.0	+8.4%	861.1	+7.6%
1994	334.4	+0.5%	3,818.3	+0.9%
Domestic:	268.9	-1.5%	3,018.0	-1.0%
Import Share: (19.6%)	65.5	+9.7%	800.3	+9.2%

1993	332.6	+1.1%	3,781.7	+1.6%
Domestic:	272.9	+0.1%	3,049.0	+0.7%
Import Share: (17.9%)	59.7	+6.2%	732.8	+5.8%
1992	328.9	+0.2%	3,721.6	+0.7%
Domestic:	272.7	-0.5%	3,029.3	+/-0%
Import Share: (17.1%)	56.2	+3.6%	692.4	+3.7%

Smoker Survey

According to JT's annual smoker survey conducted in October 2002, the percent of the population smoking fell to a record low of 30.9%, down from 32.7% in the previous year, as shown in the table below. Other findings of the survey were as follows.

- The smoking rate for males hit the lowest rate in 11 years at 49.1%.
- The smoking rate of 30.9%, including both male and female smokers, represents the lowest rate in the past 7 years of consecutive year-on-year declines and is in line with downtrend of smoking in the major western countries.
- Smokers over 60 years of age tend to smoke less or quit smoking altogether. As Japan's population ages, this will lead to decreased cigarette consumption.
- Smokers in the 50s are the largest consumers of cigarettes, consuming an average of 26.7 and 19.1 cigarettes per day, for males and females respectively.
- Smokers in Hokkaido, the northern island of Japan, are the heaviest smokers in the nation with a smoking rate of 57.2% and 22.6% for males and females, respectively. These rates, however, are down 0.1% for males and 3.8% for females from the previous year.

Japan's Smoking Rate and Population 1/						
Year	2/ Smoking Rate (%)			3/ Smoking Population (10,000)		
	Male	Female	Total	Male	Female	Total
2002	49.1	14.0	30.9	2,414	738	3,152
2001	52.0	14.7	32.7	2,544	770	3,314
2000	53.5	13.7	32.9	2,600	713	3,313
1999	54.0	14.5	33.6	2,608	749	3,357
1998	55.2	13.3	33.6	2,647	681	3,328
1997	56.1	14.5	34.6	2,669	736	3,405

1996	57.5	14.2	35.1	2,708	714	3,422
1995	58.8	15.2	36.3	2,736	755	3,491
1994	59.0	14.8	36.2	2,716	727	3,443
1993	59.8	13.8	36.1	2,719	670	3,389
1992	60.4	13.3	36.1	2,712	637	3,349
1991	61.2	14.2	36.9	2,715	672	3,387
1990	60.5	14.3	36.7	2,651	668	3,319

(Source: Japan Tobacco Inc.)

Notes: 1/ Based on JT's annual market surveys. 2/ Statistical averages. 3/ Statistical estimation.

Consumer Taste Preferences

Approximately 270 different brands of cigarettes, including 98 domestic labels, are available on the cigarette market. Smokers' purchasing criteria include flavor, packaging and, increasingly, tar content. Health concerns have caused market demands to shift increasingly toward lower tar content and mentholated cigarettes.

Market Share by Tar Content & Year (-Japanese Cigarettes – Unit: Milligram, %)						
Tar Content	1997	1998	1999	2000	2001	2002
1 mg.	4.7	5.1	5.3	5.8	6.0	6.1
2 – 3 mg.	4.7	5.2	5.6	5.8	5.8	5.9
4 – 6 mg.	20.1	19.2	18.7	18.6	17.9	17.3
7 – 13 mg.	34.6	33.8	32.7	32.2	32.0	31.6
Over 14 mg.	13.5	13.2	13.0	12.6	12.5	12.5

(Source: Japan Tobacco, Inc.)

Menthol Cigarette Market Share by Year - Growing Annually (%)						
	1997	1998	1999	2000	2001	2002
Japanese Cigarettes	3.2	3.9	4.6	5.5	6.4	6.8

(Source: Japan Tobacco, Inc.)

Trade

Japan's cigarette imports in 2002 were 83,422 million pieces, up 1.6% from the previous year, with the U.S. accounting for 95.7% of the total volume, up from 95% in the previous year. Japanese cigarette exports, remained relatively unchanged at 20,376 million pieces, with 90% of the volume going to Taiwan, South Korea, Singapore and Hong Kong.

By value, Japanese imports in 2002 were \$2.022 billion, up \$23 million from the previous year, with the U.S. accounting for \$1.930 billion or 95% share of total value. Japanese exports were \$227 million in 2002, down from \$239 million in the previous year.

Japan's Cigarette Imports from the World

Time Period	Jan.-Dec	Units:	Million Pieces
Imports for:	2001		2002
U.S.	78112	U.S.	79900
Others		Others	
Germany	2163	Germany	1847
U.K.	945	U.K.	636
China	468	China	531
Malaysia	125	Switzerland	189
Switzerland	106	Malaysia	96
Netherlands	71	Netherlands	71
France	38	Indonesia	45
Austria	37	France	32
Indonesia	34	Hong Kong	32
Poland	8	Uruguay	19
Total for Others	3995		3498
Others not Listed	18		24
Grand Total	82125		83422

Japan's Cigarette Exports to the World

Time Period	Jan.-Dec	Units:	Million Pieces
Exports for:	2001		2002
U.S.	1476	U.S.	1643
Others		Others	
Taiwan	10484	Taiwan	10318
South Korea	4307	South Korea	3870
Singapore	2721	Singapore	2965
Hong Kong	974	Hong Kong	968
Russia	279	Russia	284
Philippines	64	Philippines	81
United Arab Em	59	Malaysia	75
Malaysia	54	United Arab Em	54
Guam	35	Guam	29
Australia	27	Kuwait	25
Total for Others	19004		18669
Others not Listed	97		64
Grand Total	20577		20376

Policy Issues

Japan is expected to press for ratification of the anti-smoking convention, adopted at the World Health Organization's May 2003 general assembly meeting on smoking.

Anti-Smoking

Despite strong opposition from domestic tobacco farming and cigarette industry interests, growing health concerns in the private and public sectors propelled the "Good Health Enhancement Bill" into law in July 2002. Effective May 1, 2003, the law is designed to protect non-smokers against indirect smoke, driving a flood of city and local government ordinances and national regulations against smoking in public places, such as train stations, trains, schools, offices, restaurants, hospitals and parks.

Tax Measures

There are no import tariffs on unmanufactured leaf tobacco. The import duty for cigarettes imported under HS code 240220 is 8.5%, or approximately 290.70 yen per thousand cigarettes.

Beginning July 1, 2003, the cigarette tax will be increased 1 yen per cigarette, increasing the retail price of a pack of 20 cigarettes by 7-8%. For example, a pack of 20 cigarettes selling for 250 yen is expected to sell for 270 yen, and a pack of 20 cigarettes selling for 280 yen is expected to sell for 300 yen, after July 1, 2003.

Japan Tobacco, Inc.

According to JT, by March 2005, overseas sales volumes of cigarettes are expected to surpass sales volumes in the domestic (Japanese) market.

To increase production efficiency and adjust to a shrinking domestic market, JT announced a major restructuring plan in July 2002 to permanently close 8 of the company's least efficient cigarette production facilities by March 2005. The plant closures will eliminate 1,300 employee positions and 40.7 billion pieces of production capacity. JT will also close or consolidate 7 regional sales offices in Japan by October 2003. JT also announced that it will consolidate financial and accounting functions for its 40 subsidiary companies in Europe and Asia into a special corporation operating in Russia, the U.K. and Malaysia, in order to relieve the subsidiary firms of their financial and administrative functions and focus their efforts on marketing.

Marketing - Retail Distribution

Retailers

According to government statistics, as of March 2002, the number of retail cigarette outlets in Japan, from corner tobacco shops to supermarket chains, remained at 306,961 outlets, suggesting that the days of rapid growth in cigarette retailers are over. Nationwide retailers and vending machines are slowly replacing small corner tobacco shops, however.

Cigarette Vending Machines

In JFY 2000, 48% of retail cigarette sales came from vending machines. Of these sales, 60% of the machines were installed on sidewalks outside buildings and 40% were inside offices and commercial buildings. As of December 2002, there were 629,100 cigarette vending machines operating in Japan, representing approximately 11% of all vending machines at work in Japan.

Traditional proprietor-run retail outlets are being replaced by vending machines. Cigarette manufacturers lease out 60% of vending machines. Cigarette manufacturers have been

maximizing their use of vending machines by increasing the number and variety of cigarettes held in each machine. In 2002, vending machines handled between 40 and 49 types of cigarettes, a 25-35% increase from the previous year. The following table shows historical sales of cigarette by vending machines.

Number of Cigarette Vending Machines on the Japanese Market			
Year	Units (000)	Change (000) (Yr./Yr)	% Change
2002	629.1	+ 0.4	+ 0.1%
2001	628.7	+ 2.8	+ 0.4%
2000	625.9	+ 97.2	+ 18.4%
1999	528.7	+ 1.6	+ 0.3%
1998	527.1	+ 21.2	+ 4.2%
1997	505.9	+ 1.4	+ 0.3%
1996	504.5	+ 5.7	+ 1.1%
1995	498.8	+ 4.8	+ 0.9%
1994	494.0	- 1.0	- 1.0%
1993	495.0	- 0.9	- 0.2%
1992	495.9	+ 6.9	+ 1.4%
1991	489.0	-	+ 13.4%

(Source: Japan Tobacco Journal)

End of Report.